

# **EXHIBIT 73**

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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DEXIA SA/NV, DEXIA HOLDINGS INC., FSA  
ASSET MANAGEMENT LLC and DEXIA CREDIT  
LOCAL SA,

PLAINTIFFS,

-against-

BEAR STEARNS AND CO., INC., THE BEAR  
STEARNS COMPANIES, INC., BEAR STEARNS  
ASSET BACKED SECURITIES I LLC, EMC  
MORTGAGE LLC (f/k/a EMC MORTGAGE  
CORPORATION), STRUCTURED ASSET MORTGAGE  
INVESTMENTS II, INC., J.P. MORGAN  
MORTGAGE ACQUISITION CORPORATION, J.P.  
MORGAN SECURITIES LLC (f/k/a J.P. MORGAN  
SECURITIES INC.), WAMU ASSET ACCEPTANCE  
CORP., WAMU CAPITAL CORP., WAMU MORTGAGE  
SECURITIES CORP., JP MORGAN CHASE & CO.,  
and JPMORGAN CHASE BANK, N.A.,

DEFENDANTS.

No. 12-CV-4761

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DEPOSITION OF JAKE HENDRICKSON

New York, New York

Friday, December 21, 2012

Reported by:

Rebecca Schaumloffel, RPR, CLR

Job No: 56610

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J. HENDRICKSON

00:01:36 2 would both be you?

00:01:37 3 A. That would be correct.

00:01:38 4 Q. Okay. Where do you reside, sir?

00:01:42 5 A. In Connecticut.

00:01:43 6 Q. Okay. What town?

00:01:45 7 A. Darien.

00:01:49 8 Q. Are you currently employed?

00:01:51 9 A. Yes.

00:01:52 10 Q. By whom?

00:01:54 11 A. Dexia Financial Products.

00:01:59 12 Q. The plaintiff in this case,

00:02:00 13 correct?

00:02:02 14 A. Correct.

00:02:02 15 Q. Okay. Do you understand that the  
00:02:06 16 plaintiffs have designated you as a corporate  
00:02:10 17 designee under Federal Rule of Civil  
00:02:12 18 Procedure 30(b)6 to testify on behalf of the  
00:02:16 19 plaintiffs on various topics?

00:02:17 20 A. Yes.

00:02:21 21 Q. Let me give you the 30(b)6  
00:02:23 22 notice. It's previously been marked as  
00:02:30 23 Peterson Exhibit 1. I just want to quickly  
00:02:42 24 identify the topics on which I believe you  
00:02:45 25 have been designated to testify and make sure

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00:02:47 2 that you have the same understanding. Okay?

00:02:51 3 A. Sure.

00:02:54 4 Q. If you turn in Peterson Exhibit 1

00:03:01 5 to the numbered paragraphs beginning on

00:03:05 6 page 5, is it your understanding that you

00:03:20 7 have been designated to testify on behalf of

00:03:22 8 the plaintiffs with respect to deposition

00:03:24 9 topics listed on page 5, numbers 1 through 7?

00:03:31 10 MR. DeLANGE: I will just

00:03:32 11 object. Certain of the topics in

00:03:34 12 there is not -- he is not designated

00:03:36 13 to testify on the entire topic but

00:03:38 14 portions thereof. Which I believe we

00:03:40 15 have communicated with your office

00:03:43 16 through various e-mails.

00:03:44 17 MR. PASKIN: Fair enough.

00:03:44 18 Q. Mr. Hendrickson, is it your

00:03:46 19 understanding that you have been designated

00:03:48 20 to testify with respect to various aspects of

00:03:52 21 Topics 1 and 2 and entirely with respect to

00:03:57 22 Topics 3 through 7?

00:04:05 23 A. Yes.

00:04:06 24 Q. Okay. If you turn the page to

00:04:08 25 page 6 and page 7, is it also your

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00:04:14 2 understanding that you have been designated  
00:04:16 3 to testify on behalf of the plaintiffs with  
00:04:18 4 respect to topics, numbers 10 through 16 in  
00:04:23 5 the 30(b)6 notice?

00:04:34 6 A. Yes.

00:04:35 7 Q. Okay. And you understand that in  
00:04:38 8 your role as a Rule 30(b)6 witness, your  
00:04:42 9 testimony with respect to the topics on which  
00:04:44 10 you have been designated is a binding  
00:04:46 11 admission as to the plaintiffs, correct?

00:04:48 12 A. Correct.

00:04:51 13 Q. We will get into sort of the  
00:04:52 14 specifics of certain topics, but, really,  
00:04:55 15 just generally now, what did you do to  
00:04:59 16 prepare to testify as a Rule 30(b)6 witness  
00:05:04 17 with respect to these topics, generally?

00:05:06 18 A. I met twice with counsel.

00:05:09 19 Q. Okay. When did you meet?

00:05:11 20 A. Yesterday, approximately  
00:05:13 21 two weeks ago.

00:05:15 22 Q. Okay. For how long did you meet  
00:05:18 23 yesterday with counsel?

00:05:22 24 A. Approximately seven hours.

00:05:23 25 Q. Okay. What about when you met

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00:05:25 2 two weeks ago, about how long was that

00:05:27 3 meeting?

00:05:30 4 A. Approximately five to six hours.

00:05:32 5 Q. Okay. Present at the meeting, I

00:05:34 6 take it, was Mr. DeLange?

00:05:35 7 A. Correct.

00:05:37 8 Q. Any other counsel?

00:05:41 9 A. Internal.

00:05:42 10 Q. Who internal?

00:05:44 11 A. John Peterson was there for part

00:05:46 12 of it.

00:05:48 13 Q. Both sessions or one or the

00:05:49 14 other?

00:05:50 15 A. For both.

00:05:52 16 Q. Was anybody else present for all

00:05:54 17 or part of either of your prep sessions?

00:05:57 18 A. No. There was another one of

00:06:03 19 your colleagues?

00:06:05 20 Q. Somebody else from the Bernstein

00:06:06 21 Litowitz firm?

00:06:07 22 A. Correct, for the first meeting.

00:06:15 23 Q. Now I take it based on your own

00:06:18 24 experience and your own personal knowledge

00:06:22 25 you believe you have the ability to speak

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00:06:25 2 about various of the topics in the 30(b)6

00:06:27 3 notice, correct?

00:06:28 4 A. Correct.

00:06:28 5 Q. Were there areas for which you

00:06:31 6 have been designated to testify where you had

00:06:34 7 to educate yourself to gain the knowledge to

00:06:37 8 testify on behalf of the plaintiffs?

00:06:40 9 A. No.

00:06:41 10 Q. Nothing. So all of your

00:06:42 11 testimony today that will act as admissions

00:06:46 12 on behalf of Dexia is based on your own

00:06:48 13 personal knowledge of these topics, correct?

00:06:51 14 A. Correct.

00:06:59 15 Q. Have you ever been deposed

00:06:59 16 before?

00:07:00 17 A. No.

00:07:05 18 Q. I just want to go a little

00:07:06 19 through your own personal knowledge. Can you

00:07:09 20 kind of briefly walk me through sort of your

00:07:12 21 resume from the time you graduated college

00:07:15 22 until present?

00:07:16 23 A. Sure. Graduated in '87. I

00:07:22 24 started out working for Legg Mason Woods

00:07:25 25 Walker in Baltimore, Maryland in their mutual

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00:07:28 2 fund section. Later went to the trading  
00:07:31 3 floor, ran inventory for the brokers that we  
00:07:36 4 had for primarily government, government type  
00:07:39 5 products and went to Alex Brown in  
00:07:42 6 approximately 1992. Ran a mortgage trading  
00:07:46 7 book there. In the ladder part of '92, I  
00:07:52 8 believe, came up to New York, worked for  
00:07:55 9 Credit Leananay on the buy side. We ran a  
00:08:00 10 proprietary mortgage portfolio.  
00:08:05 11 Approximately 1998 went over to the Banco Di  
00:08:09 12 Napoli. I was in charge of the portfolio  
00:08:16 13 there as well as overseeing the repo desks,  
00:08:19 14 the FX desk, some prop trading that we had  
00:08:27 15 and then I left there and went to GE.  
00:08:30 16 The sub that I worked for was the  
00:08:32 17 Financial Guarantee Insurance Company. We  
00:08:36 18 ran two, at the time, off balance sheets or  
00:08:41 19 on related balance portfolios, Trinity and  
00:08:45 20 Trinity Plus. I co-ran it with another  
00:08:47 21 individual. And in 2003, I left there, went  
00:08:52 22 to FSA and started the portfolio there.  
00:09:00 23 Approximately 2008, we were owned by Dexia at  
00:09:05 24 the time but became more directly under the  
00:09:09 25 reporting of Dexia upon the sale of FSA to an



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00:09:15 2 Assurety side to Assured. And that's where I

00:09:19 3 currently am.

00:09:19 4 So technically, I work for Dexia

00:09:25 5 Financial Products as administrator and one

00:09:29 6 of our duties is to manage the FSA asset

00:09:32 7 management portfolio.

00:09:35 8 Q. Okay. I am going to go back

00:09:36 9 through some of -- some of those details and

00:09:40 10 just ask for a little more detail. Where did

00:09:43 11 you graduate from college in 1987?

00:09:46 12 A. Randolph Megan College.

00:09:47 13 Q. What degree did you get?

00:09:48 14 A. Business economics.

00:09:49 15 Q. Okay. Since you graduated

00:09:52 16 college, have you pursued any other formal

00:09:55 17 education?

00:09:57 18 A. I passed the first part of CFA.

00:10:00 19 Q. Okay. That's as a certified

00:10:02 20 financial analyst?

00:10:03 21 A. Correct.

00:10:09 22 Q. But no other degrees, right?

00:10:10 23 A. Correct.

00:10:15 24 Q. The job that you had at Legg

00:10:17 25 Mason, I take it that was approximately

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J. HENDRICKSON

00:10:19 2 five years?

00:10:21 3 A. Four or five yeas, correct.

00:10:22 4 Q. Okay. Did you have any

00:10:25 5 experience while working at Legg Mason with

00:10:28 6 investments in mortgages or mortgage backed

00:10:31 7 securities?

00:10:32 8 A. Yes.

00:10:33 9 Q. Could you just describe generally

00:10:34 10 for me what kind of experience you had

00:10:36 11 specifically related to mortgages and

00:10:38 12 mortgage backed securities while at Legg

00:10:40 13 Mason?

00:10:41 14 A. We traded specified pools,

00:10:44 15 primarily Ginnie, Freddie and Fannie and we

00:10:49 16 would purchase CMOs, agency CMOs as well.

00:10:55 17 Q. Okay. CMO is collateralized

00:10:59 18 mortgage obligation?

00:11:00 19 A. Correct.

00:11:01 20 Q. Is that synonymous with

00:11:03 21 residential mortgage backed security?

00:11:05 22 A. Correct.

00:11:08 23 Q. So CMO and RMBS are

00:11:10 24 interchangeable terms, correct?

00:11:14 25 A. The RMBS -- it can be. The RMBS

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00:11:18 2 tends to be more about the specified pools,

00:11:21 3 the actual mortgages themselves.

00:11:23 4 Q. Okay.

00:11:23 5 A. The CMO is the structured

00:11:26 6 component of that.

00:11:29 7 Q. Can you just explain a little bit

00:11:31 8 more what you mean by that, how the RMBS is

00:11:34 9 about the mortgages itself, where the CMO is

00:11:37 10 about the structured component? I don't

00:11:40 11 quite understand.

00:11:42 12 A. A specified pool has a finite

00:11:46 13 with similar type characteristics in there.

00:11:49 14 So that would be in generally, fixed rate,

00:11:53 15 same type of rate average coupon in there.

00:11:56 16 Q. Okay.

00:11:58 17 A. Conform to Freddie and Fannie and

00:12:00 18 just a pass through. So therefore, as the

00:12:03 19 homeowners pay, that just gets passed through

00:12:06 20 to the owner of that particular right. The

00:12:11 21 CMO has these pools as collateral.

00:12:16 22 Q. Okay.

00:12:17 23 A. Right. As in the CMO is in

00:12:21 24 essence a trust, as the payments come into

00:12:25 25 the trust, there is a set of rules that

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00:12:29 2 determine how that cash gets allocated.

00:12:32 3 Q. Is that commonly called a

00:12:33 4 waterfall?

00:12:34 5 A. Correct.

00:12:35 6 Q. So then moving forward a little

00:12:39 7 bit more to the time period that's relevant

00:12:42 8 for this case, the sorts of investments that

00:12:46 9 you were involved in while working for the

00:12:49 10 plaintiffs and on which the plaintiffs are

00:12:53 11 suing in this case, do you characterize them

00:12:57 12 as CMOs or RMBSs?

00:13:02 13 A. RMBS more home equity private

00:13:04 14 label.

00:13:05 15 Q. Okay. But I take it, just like a

00:13:09 16 CMO, there is a structure to those products

00:13:13 17 that involves investors receiving payment

00:13:16 18 through a waterfall, correct?

00:13:17 19 A. Correct.

00:13:18 20 Q. So I just want to understand

00:13:22 21 where you draw the line then between the

00:13:25 22 sorts of securities that you would call RMBSs

00:13:28 23 versus CMOs?

00:13:33 24 A. CMOs tend to be a structured

00:13:35 25 product with Freddie, Fannie, and Ginnie

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00:13:37 2 collateral.

00:13:38 3 Q. So you think of securities backed

00:13:43 4 by -- withdrawn.

00:13:47 5 You think of sort of what are

00:13:49 6 commonly referred to as private label or

00:13:53 7 non-agency mortgage backed securities, you

00:13:56 8 just generally refer to as RMBSs; is that

00:14:00 9 fair?

00:14:00 10 A. Correct, or home equity, correct.

00:14:03 11 Q. Apart from the fact that CMOs, as

00:14:10 12 you talk about them, are generally associated

00:14:15 13 with Freddie, Fannie or GNMA and RMBSs are

00:14:20 14 not, are there any other differences in the

00:14:22 15 nature of the products?

00:14:29 16 A. Not in a general.

00:14:32 17 Q. Apart from the issue related to

00:14:35 18 the guarantees provided by those quasi

00:14:38 19 governmental agencies, otherwise the

00:14:40 20 structure and the general makeup of the

00:14:42 21 products is similar?

00:14:45 22 A. It can be, yes.

00:14:52 23 Q. When you were at Legg Mason for

00:14:55 24 four or five years, were you primarily

00:15:04 25 working with regard to CMOs, is that what you

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00:15:11 2 said?

00:15:12 3 A. It was all government products.

00:15:16 4 So it was agency debentures, it was Freddie,

00:15:22 5 Fannie, Ginnie CMOs. It was specified pools.

00:15:26 6 Zero coupons. Now they have STRIPS, at the

00:15:29 7 time we had Cats and Tigers that were issued

00:15:32 8 by specific houses. And any other type that

00:15:38 9 was -- that fell in that.

00:15:42 10 Q. Okay. Then from your earlier

00:15:46 11 answer, I take it you spent approximately a

00:15:49 12 year or maybe a little less at Alex Brown?

00:15:52 13 A. Approximately a year.

00:15:52 14 Q. Okay. And the mortgage trading

00:15:57 15 that you were involved in at Alex Brown,

00:16:00 16 describe for me what kind of mortgage trading

00:16:01 17 you were involved in.

00:16:05 18 A. CMOs and specified pools.

00:16:07 19 Q. Okay. Any private label RMBSs at

00:16:10 20 Alex Brown?

00:16:12 21 A. No.

00:16:13 22 Q. Okay. Are the kinds of tools and

00:16:18 23 skills that you used to analyze CMO

00:16:24 24 investment opportunities at Legg Mason and

00:16:26 25 Alex Brown the same kinds of skills and tools

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00:16:29 2 that you would use to evaluate private label

00:16:33 3 RMBS investments?

00:16:40 4 A. We didn't have access to a lot of  
00:16:42 5 what is available today.

00:16:44 6 Q. Okay. What kinds of things are  
00:16:47 7 available -- well, withdrawn.

00:16:50 8 When you say "available today,"  
00:16:51 9 are you generically referring to the time  
00:16:54 10 that you have been working at FSA and Dexia?

00:16:59 11 A. No. What we had available to  
00:17:04 12 analyze at Legg Mason and Alex Brown is  
00:17:10 13 nothing close to what we have available today  
00:17:12 14 to analyze similar type securities and  
00:17:18 15 private label home equity deals.

00:17:21 16 Q. Okay. So referring back, you  
00:17:25 17 understand that the securities that are at  
00:17:27 18 issue in this case were purchased in the  
00:17:30 19 2006, 2007 timeframe, right?

00:17:32 20 A. Correct.

00:17:33 21 Q. Okay. How would you compare the  
00:17:37 22 sorts of tools that were available to  
00:17:39 23 evaluate investments while you were at  
00:17:41 24 Legg Mason and Alex Brown with the sorts of  
00:17:45 25 tools that were available in 2006 and 2007 to

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00:17:49 2 evaluate the investments that the plaintiffs

00:17:52 3 made in the securities at issue here?

00:18:00 4 A. We had -- the tools that we had

00:18:06 5 in '06 and '08 were more advanced than what

00:18:09 6 we had at Alex Brown and Legg Mason.

00:18:11 7 Q. Can you describe in what ways the

00:18:13 8 tools were more advanced in the 2006, 2007,

00:18:16 9 '8 time period?

00:18:19 10 A. One, when I was at Legg Mason, we

00:18:21 11 would define a yield by literally taking it

00:18:25 12 out of a physical book. So you owned a

00:18:30 13 coupon. We would reasonably project some

00:18:36 14 sort of prepayment rate, follow it down and

00:18:40 15 then in theory that would be your yield.

00:18:42 16 Archaic today.

00:18:44 17 Q. Okay.

00:18:45 18 A. We didn't -- we had one Bloomberg

00:18:51 19 for the entire floor.

00:18:53 20 Q. Okay.

00:18:54 21 A. At that time.

00:18:55 22 Q. How do you use Bloomberg in order

00:18:57 23 to analyze CMO or RMBS investments?

00:19:02 24 A. They are structured on Bloomberg

00:19:06 25 and they have various analytical fields that



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00:19:10 2 you can look at.

00:19:11 3 Q. Okay. And I take it that whether

00:19:18 4 in the '80s and '90s when you were first

00:19:21 5 doing this kind of work or in the 2006, 2007

00:19:26 6 time period when you were analyzing the

00:19:28 7 investments involved in this case, you took

00:19:32 8 advantage of the tools and analytics that

00:19:34 9 were available on Bloomberg at those

00:19:35 10 respective times; is that fair?

00:19:41 11 MR. DeLANGE: Object to the

00:19:41 12 form.

00:19:43 13 Q. You can answer.

00:19:47 14 A. To the degree that time

00:19:49 15 permitted.

00:19:50 16 Q. Okay. They were certainly

00:19:52 17 available to you, though, right?

00:19:55 18 MR. DeLANGE: Object to the

00:19:55 19 form.

00:19:58 20 A. It depend -- certain yields were

00:20:01 21 not on Bloomberg at the time. So they were

00:20:05 22 not necessarily on Intex at the time.

00:20:08 23 Q. Okay. What's Intex?

00:20:10 24 A. It is an analytical system, a

00:20:13 25 mortgage based analytical system.

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00:20:14 2 Q. Okay. That was generally

00:20:17 3 available to you in 2006, 2007?

00:20:21 4 A. Correct.

00:20:21 5 Q. Okay. What would determine

00:20:23 6 whether a deal was on Bloomberg or Intex or

00:20:26 7 not on Bloomberg or Intex in the '06,

00:20:29 8 '07 time period?

00:20:33 9 A. A lot of the primary distinction

00:20:35 10 was whether it was a new deal or a secondary

00:20:37 11 deal.

00:20:38 12 Q. What does that mean?

00:20:39 13 A. A new deal is coming to market.

00:20:43 14 Q. Okay.

00:20:45 15 A. And looking to sell the entire

00:20:48 16 structure. A secondary deal is one that's

00:20:51 17 already out in the market and you are bidding

00:20:53 18 on a particular bond within that structure.

00:20:56 19 Q. So for a secondary deal, is it

00:21:00 20 fair to say that Bloomberg and Intex would

00:21:03 21 have all sorts of analytical tools to

00:21:06 22 evaluate the performance of those particular

00:21:11 23 bonds over time up until the time when you

00:21:13 24 are considering buying them; is that right?

00:21:15 25 MR. DeLANGE: Object to the form

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00:21:16 2 of the question.

00:21:16 3 A. For secondary transactions?

00:21:18 4 Q. Yes.

00:21:20 5 A. They were logical places to go to

00:21:23 6 do the analysis, correct.

00:21:24 7 Q. Were they the primary places that

00:21:26 8 you went to do analysis related to your

00:21:29 9 purchases of secondary transaction RMBSs?

00:21:33 10 A. In general, yes.

00:21:34 11 Q. Okay. Was there anything

00:21:37 12 available on Bloomberg or Intex with respect

00:21:40 13 to securities that you were buying at the

00:21:45 14 time of issuance?

00:21:49 15 A. If it was U.S. issued deals?

00:21:50 16 Q. Right.

00:21:52 17 A. In general, it tended not to be

00:21:54 18 anything on Bloomberg.

00:21:56 19 Q. Okay.

00:21:56 20 A. It would not be anything on

00:21:57 21 Intex. But we would receive a CDI file that

00:22:02 22 would allow us to upload that transaction

00:22:06 23 into Intex and potentially run some analysis.

00:22:10 24 Q. What is a CDI file?

00:22:13 25 A. It is just a file that would come

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00:22:15 2 over from the broker dealer. We would upload  
00:22:18 3 it into Intex and it would, in essence, allow  
00:22:21 4 us to produce yield tables, available funds  
00:22:24 5 cap and similar other type analysis.

00:22:26 6 Q. What information would be  
00:22:28 7 contained within that CDI file that you would  
00:22:30 8 then, you know, incorporate into your  
00:22:33 9 analyses?

00:22:35 10 MR. DeLANGE: Object to form.

00:22:39 11 A. We would look at it for the  
00:22:41 12 available funds cap. We would look at it for  
00:22:44 13 the priority of payments of cash flows in  
00:22:48 14 terms of the window.

00:22:50 15 Q. Okay.

00:22:50 16 A. The expected time payment of the  
00:22:51 17 principal.

00:22:54 18 Q. Is the raw data that comes across  
00:22:55 19 in that CDI file, though?

00:22:58 20 MR. DeLANGE: Object to the  
00:22:58 21 form.

00:23:07 22 A. I believe it is just the high  
00:23:09 23 level components of the transaction. I don't  
00:23:12 24 believe it was the low level detail.

00:23:14 25 Q. Okay. So but it was data

1 J. HENDRICKSON

00:23:16 2 regarding the actual mortgages that were

00:23:19 3 going to be pooled for that specific deal; is

00:23:22 4 that correct?

00:23:22 5 A. It was specific to that deal,

00:23:24 6 correct.

00:23:24 7 Q. Okay. It was specific to the

00:23:26 8 mortgages that made up that deal, right?

00:23:28 9 A. Correct.

00:23:29 10 Q. Okay. And you don't recall

00:23:32 11 whether it always included specific loan

00:23:37 12 level detail, but it included at some summary

00:23:40 13 level data regarding the mortgages that would

00:23:44 14 make up the deal you were considering,

00:23:46 15 correct?

00:23:47 16 A. And structure, correct.

00:23:48 17 Q. Okay. So it would include -- why

00:23:52 18 don't you break it out a little bit for me.

00:23:53 19 What sort of data would the CDI file

00:23:56 20 typically include regarding the mortgages

00:24:00 21 themselves as compared to what sort of data

00:24:04 22 the CDI file would contain about the

00:24:06 23 structure of the deal?

00:24:07 24 MR. DeLANGE: Mike, you want him

00:24:08 25 to explain to you generally?

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00:24:10 2 MR. PASKIN: Generally in the

00:24:11 3 2006-2007 time period.

00:24:13 4 MR. DeLANGE: Thank you.

00:24:20 5 A. It would provide the overall

00:24:25 6 parameters of the collateral.

00:24:27 7 Q. Okay.

00:24:28 8 A. And it would provide in essence

00:24:31 9 the waterfall within the deal.

00:24:33 10 Q. Okay.

00:24:35 11 A. And at times we would potentially

00:24:37 12 go back and forth in terms of coming up with

00:24:40 13 an agreed upon structure that we were

00:24:41 14 comfortable with.

00:24:43 15 Q. What do you mean "back and

00:24:44 16 forth," with whom would you be going back and

00:24:45 17 forth?

00:24:45 18 A. With the investment bank.

00:24:48 19 Q. The investment bank that was --

00:24:49 20 A. The salesperson that was

00:24:51 21 underwriting the deal.

00:24:52 22 Q. Okay. Such as my clients?

00:24:57 23 A. Exactly.

00:24:58 24 Q. Okay. What kind of information

00:25:00 25 would you commonly exchange or -- withdrawn.

1 J. HENDRICKSON

00:25:04 2 What kind of back and forth would  
00:25:08 3 you commonly have with the representatives of  
00:25:11 4 the underwriters of the deal?

00:25:18 5 A. Certainly the waterfall was a big  
00:25:19 6 component.

00:25:21 7 Q. Okay. Was the nature of those  
00:25:30 8 communications, in general, to help you  
00:25:34 9 understand the way the waterfall would work  
00:25:37 10 or was it more to try to get the underwriters  
00:25:41 11 to change the way the waterfall would work in  
00:25:43 12 a given deal?

00:25:45 13 A. It wasn't necessarily that it had  
00:25:47 14 to change. Make sure that it was consistent  
00:25:49 15 with the term sheet that was provided.

00:25:51 16 Q. Okay.

00:25:52 17 A. To a degree that we did not like  
00:25:54 18 it because it was -- did not fit our  
00:25:57 19 potential demand, and we would have a

00:26:01 20 conversation potentially about changing the  
00:26:04 21 waterfall. Or changing the deal structure.

00:26:07 22 Q. Okay. And do you recall in fact  
00:26:11 23 having conversations like that from time to  
00:26:13 24 time?

00:26:15 25 A. Yes, we did have a conversation

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00:26:17 2 from time to time.

00:26:18 3 Q. Okay. Regarding changing the

00:26:20 4 deal structure with the investment banks that

00:26:23 5 were underwriting the deals, right?

00:26:26 6 A. Correct.

00:26:27 7 Q. And would -- from time to time

00:26:31 8 would the investment banks respond to your

00:26:37 9 concerns by in fact changing the structure of

00:26:39 10 the deal to make it more appealing to you?

00:26:42 11 A. Sometimes they would. Sometimes

00:26:44 12 they wouldn't.

00:26:44 13 Q. Okay. Did you have any back and

00:26:47 14 forth with the underwriters of the deal

00:26:50 15 regarding the collateral that was backing the

00:26:55 16 deal, the specific mortgages at issue?

00:26:58 17 A. Did we have conversations

00:26:59 18 regarding it?

00:26:59 19 Q. Yes.

00:27:00 20 A. Yes.

00:27:01 21 Q. With the underwriters, correct?

00:27:02 22 A. Correct.

00:27:03 23 Q. What kinds of conversations would

00:27:04 24 you have with underwriters regarding the

00:27:06 25 collateral itself?



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00:27:13 2 A. We would -- we would have -- a  
00:27:15 3 lot of times they would send over the term  
00:27:17 4 sheet, and if there was something that was  
00:27:20 5 unclear in that term sheet, we would ask them  
00:27:24 6 to clarify it.

00:27:25 7 Q. Okay. I have seen some e-mails  
00:27:28 8 where there are questions asked regarding  
00:27:32 9 sort of who is the servicer is going to be on  
00:27:34 10 a given pool of loans. Is that the sort of  
00:27:38 11 clarifying question that you might ask about?

00:27:39 12 A. That would be a possibility.

00:27:41 13 Q. You recall in fact that sort of a  
00:27:43 14 question?

00:27:45 15 A. Not specifically.

00:27:46 16 Q. Okay. What sort of information  
00:27:56 17 was provided typically in the term sheets  
00:28:02 18 that you would look at prior to having such  
00:28:06 19 communications with the investment bankers?

00:28:12 20 A. The LTV was always important.

00:28:16 21 Q. Okay.

00:28:16 22 A. The FICO scores were always  
00:28:18 23 important. Whether it was owner occupied or  
00:28:23 24 investor owned, what the percentage of the  
00:28:26 25 second liens were, things along those lines.

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00:28:31 2 Geographic distribution.

00:28:33 3 Q. Documentation standards?

00:28:34 4 A. Correct.

00:28:35 5 Q. Okay. How long would these sorts

00:28:39 6 of term sheets commonly be?

00:28:42 7 MR. DeLANGE: You mean the

00:28:43 8 number of pages?

00:28:44 9 MR. PASKIN: Yes.

00:28:46 10 A. I would say 10 to 20.

00:28:48 11 Q. Okay. And they would give data

00:28:59 12 regarding the specific mortgages that were

00:29:03 13 proposed to make up the transaction at issue,

00:29:06 14 correct?

00:29:08 15 A. They were -- right, it was meant

00:29:10 16 to represent the collateral as going into the

00:29:14 17 deal. A lot of times it would not be 100%.

00:29:18 18 Q. What do you mean it "would not be

00:29:19 19 100%"?

00:29:20 20 A. They would not have -- sometimes

00:29:23 21 the dealer did not have 100% of the

00:29:27 22 collateral that was going into the deal.

00:29:29 23 Q. Okay. So, for example, at the

00:29:32 24 point in time when the term sheet got

00:29:33 25 distributed, the dealer would say here is

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00:29:37 2 some population of loans that are going into  
00:29:40 3 this deal, there are going to be additional  
00:29:42 4 loans added between now and the time of  
00:29:44 5 issue; is that fair?

00:29:45 6 A. In settlement, correct.

00:29:46 7 Q. Okay.

00:29:48 8 MR. DeLANGE: Make sure you let  
00:29:49 9 him finish his question.

00:29:55 10 Q. Just sort of going back to kind  
00:29:58 11 of some of your personal history. In 1992,  
00:30:03 12 you went from Alex Brown to Credit Leany?

00:30:06 13 A. Correct.

00:30:08 14 Q. Could you describe the sorts of  
00:30:12 15 activities you were involved in while you  
00:30:14 16 worked there involving investment in  
00:30:17 17 mortgages or mortgage backed securities?

00:30:20 18 A. Sure. It was on the buy side  
00:30:23 19 where Alex Brown and Legg Mason were  
00:30:25 20 considered sell side. We had -- we grew the  
00:30:33 21 portfolio to approximately \$2 billion and it  
00:30:37 22 consisted primarily of Ginnie, Freddie and  
00:30:42 23 Fannie, agency type CMOs along with  
00:30:46 24 derivatives for hedging purposes.

00:30:51 25 Q. What kind of derivatives?

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00:30:55 2 A. It would be swaps, caps, floors

00:30:59 3 and other types of esoteric derivatives.

00:31:04 4 Q. Those are the sorts of things you

00:31:05 5 traded during your time at Credit Leananay?

00:31:08 6 A. Correct.

00:31:10 7 Q. Were the derivatives that were

00:31:12 8 used for hedging purposes also backed by

00:31:15 9 mortgage loans?

00:31:17 10 A. No. These were more interest

00:31:19 11 rate based.

00:31:20 12 Q. Okay. So you would invest at

00:31:22 13 Credit Leananay in mortgages and mortgage

00:31:25 14 backed securities on the one hand and then

00:31:28 15 for hedging purposes, would you invest in

00:31:30 16 different sorts of transactions to mitigate

00:31:32 17 the risk associated with the mortgage related

00:31:35 18 things you were buying, right?

00:31:38 19 A. We tried to mitigate certain

00:31:40 20 types of risk.

00:31:40 21 Q. Okay. Interest rate risk is one

00:31:47 22 that you mentioned, right?

00:31:48 23 A. Correct.

00:31:49 24 Q. Other types of risk that hedging

00:31:51 25 was intended to mitigate?

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00:31:53 2 A. Potentially caps.

00:31:55 3 Q. What are caps?

00:31:59 4 A. In floating rate securities,  
00:32:01 5 there is what's considered a hard cap. So if  
00:32:05 6 rates go above that specified rate, you will  
00:32:09 7 not be paid above that rate.

00:32:13 8 Q. Okay. Were you involved in any  
00:32:15 9 hedging that was designed to mitigate against  
00:32:17 10 credit risk?

00:32:20 11 A. No.

00:32:21 12 Q. Why not?

00:32:22 13 A. These were agencies securities.  
00:32:23 14 We do not deem credit to be an issue.

00:32:27 15 Q. Okay. In non-agency backed  
00:32:29 16 securities, just as a general matter, credit  
00:32:32 17 risk is something that, you know, needs to be  
00:32:34 18 paid attention to, though, right?

00:32:36 19 MR. DeLANGE: Object to the form  
00:32:37 20 of the question.

00:32:39 21 A. Depends on where you are.

00:32:41 22 Q. What do you mean?

00:32:45 23 A. We primarily, during the '06, '08  
00:32:48 24 time period, we primarily purchased AAA rated  
00:32:50 25 securities. We did not consider the AAA

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00:32:57 2 securities that were purchased to have a

00:33:01 3 significant credit component to it.

00:33:05 4 Q. Okay. Now, you also invested in

00:33:14 5 some mortgage backed securities that were not

00:33:19 6 AAA rated, correct?

00:33:21 7 A. When?

00:33:23 8 Q. How about in 2006, 2007, while

00:33:26 9 you were investing in the securities at issue

00:33:28 10 in this case.

00:33:30 11 A. That were not agency related?

00:33:32 12 Q. Yeah.

00:33:33 13 A. Correct.

00:33:34 14 Q. Okay. You -- during 2006, 2007

00:33:38 15 while working at FSA and Dexia, you invested

00:33:45 16 in non-agency private label mortgage backed

00:33:48 17 securities, correct?

00:33:49 18 A. Correct.

00:33:50 19 Q. And some of those securities were

00:33:52 20 not AAA rated, correct?

00:33:54 21 A. Very few. The vast majority of

00:33:56 22 our purchases were AAA rated.

00:33:58 23 Q. But some of them were not,

00:33:59 24 correct?

00:34:01 25 A. Very few were not, correct.

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00:34:05 2 Q. And under the various guidelines  
00:34:09 3 that you were required to follow in making  
00:34:10 4 such purchases you were permitted to purchase  
00:34:12 5 non-AAA rated securities, correct?

00:34:14 6 A. A small amount as a function of  
00:34:16 7 the overall portfolio, correct.

00:34:23 8 Q. So when you left Credit Leany in  
00:34:25 9 1988, I didn't quite catch the name of the  
00:34:28 10 bank that you then went to work for?

00:34:30 11 A. It was bank in Naples. So Banco  
00:34:32 12 Di Napoli.

00:34:33 13 Q. Okay. And just describe briefly  
00:34:37 14 for me the kind of work you did with respect  
00:34:41 15 to investing in mortgages and mortgage backed  
00:34:43 16 securities there?

00:34:45 17 A. It was a very small operation.  
00:34:48 18 But, in essence, I ran the trading floor.  
00:34:50 19 The primary component of that was to run  
00:34:53 20 approximately \$2 billion portfolio for the  
00:34:55 21 bank. That was funded through either the  
00:35:00 22 deposits of the bank or borrowings, and I  
00:35:05 23 oversaw some of the other operations on the  
00:35:07 24 floor.

00:35:09 25 Q. Okay. That was a \$2 billion

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00:35:10 2 portfolio of mortgage securities?

00:35:15 3 A. Mortgage securities were a large

00:35:17 4 component of it.

00:35:19 5 Q. More than half of it?

00:35:21 6 A. I believe so.

00:35:24 7 Q. Yet you considered it to be a

00:35:25 8 small portfolio, correct?

00:35:35 9 A. In terms of Eurol bank.

00:35:39 10 Q. And in terms of the sorts of

00:35:41 11 investments that you were making in mortgage

00:35:42 12 backed securities in your other jobs, both

00:35:44 13 before and after Banco Di Napoli, right?

00:35:49 14 A. Could you repeat that.

00:35:52 15 Q. The billion dollars plus in

00:35:54 16 mortgage backed securities that you were

00:35:56 17 invested in and oversaw while working at

00:36:00 18 Banco Di Napoli was also a small portfolio in

00:36:05 19 relation to the size of the mortgage

00:36:07 20 portfolios that you oversaw in your jobs

00:36:10 21 before and after that, correct?

00:36:16 22 A. A billion dollar portfolio is

00:36:19 23 sizable in many accounts. You know, when you

00:36:22 24 are at the AAA level -- very seldom do you

00:36:31 25 see \$100 million AAA portfolio. You tend to



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00:36:37 2 have to grow it.

00:36:39 3 Q. How big was the portfolio of

00:36:40 4 mortgage backed securities that you oversaw

00:36:42 5 at Credit Leananay?

00:36:45 6 A. It was approximately 2 billion.

00:36:46 7 Q. Okay.

00:36:47 8 A. I was a junior person initially.

00:36:49 9 Q. Okay.

00:36:50 10 A. And then the head of the desk

00:36:53 11 left and I was given his position.

00:36:56 12 Q. And you oversaw 2 billion once

00:37:00 13 you got his position at Credit Leananay; is

00:37:02 14 that fair?

00:37:03 15 A. Correct. I always had a report.

00:37:08 16 Q. But in your job working at Credit

00:37:09 17 Leananay you essentially were involved in the

00:37:12 18 oversight and management of a \$2 billion

00:37:15 19 mortgage security portfolio?

00:37:17 20 A. The day-to-day management,

00:37:19 21 correct.

00:37:23 22 Q. What about in your time at FSA

00:37:26 23 and Dexia, what's the size of the mortgage

00:37:28 24 portfolio that you invested in?

00:37:33 25 A. When I arrived in 2003, I believe

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00:37:36 2 it was approximately 2.8 billion and I

00:37:40 3 believe the peak was approximately 18.

00:37:42 4 Q. 18 billion. When was that?

00:37:46 5 A. I don't recall exactly.

00:37:50 6 Q. Based on just your recollection

00:37:53 7 and your experience, you know, how would you

00:37:55 8 best, I guess estimate when the peak of

00:38:00 9 Dexia's investments in mortgage backed

00:38:02 10 securities occurred?

00:38:05 11 A. Approximately 2006.

00:38:07 12 Q. Okay. Approximately the time

00:38:09 13 when the investments in this case were made,

00:38:11 14 right?

00:38:12 15 A. Approximately.

00:38:13 16 Q. In 2006 and 2007, on an annual

00:38:17 17 basis, about how much mortgage backed

00:38:22 18 securities was -- were the plaintiffs buying

00:38:30 19 in a total sort of dollar value?

00:38:33 20 A. I don't recall exactly.

00:38:35 21 Q. Billions of dollars a year?

00:38:38 22 A. That would be fair to say.

00:38:39 23 Q. Okay. Just working forward

00:38:56 24 through your resume a little bit, after you

00:39:02 25 worked at Banco Di Napoli, you went to the

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00:39:09 2 FGIC arm of General Electric, correct?

00:39:12 3 A. Correct.

00:39:15 4 Q. And there you also ran a

00:39:17 5 portfolio of mortgage backed securities,

00:39:19 6 right?

00:39:20 7 A. I co-ran the day-to-day

00:39:21 8 activities, correct.

00:39:23 9 Q. How big was that portfolio of

00:39:25 10 mortgage backed securities?

00:39:27 11 A. I believe it peaked around

00:39:28 12 15 billion.

00:39:29 13 Q. 15 billion. And during what

00:39:35 14 period of time did you work there?

00:39:40 15 A. Approximately 1999 to '03.

00:39:45 16 Q. Okay. Did it peak around the '03

00:39:49 17 period when you then left to go to FSA?

00:39:54 18 A. Don't recall.

00:39:55 19 Q. Okay. In general, were those

00:40:00 20 four years a time when you were involved in

00:40:05 21 buying mortgage backed securities and growing

00:40:09 22 the overall FGIC portfolio of mortgage

00:40:11 23 securities?

00:40:12 24 A. Yes.

00:40:14 25 Q. Was it also a time when on an

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00:40:16 2 annual basis you were involved in the

00:40:19 3 purchase of billions of dollars of mortgage

00:40:21 4 backed securities on an annual basis?

00:40:32 5 A. I don't know if it was

00:40:33 6 necessarily billions earlier on.

00:40:36 7 Q. But by 2002, 2003, it was?

00:40:41 8 A. I would expect it would be that

00:40:43 9 area.

00:40:44 10 Q. Okay. Other than the, you know,

00:40:47 11 obviously larger size of the portfolio that

00:40:50 12 you were overseeing, did your basic sort of

00:40:54 13 duties and functions in overseeing a mortgage

00:40:57 14 backed securities portfolio change over the

00:41:01 15 time that you worked at these various jobs

00:41:04 16 before arriving at FSA?

00:41:12 17 A. In each of the cases, I oversaw

00:41:14 18 the day-to-day management of those

00:41:16 19 portfolios.

00:41:20 20 Q. While over time the tools

00:41:22 21 available to perform your analysis in

00:41:25 22 managing those portfolios increased, you

00:41:31 23 basically were kind of doing the same sort of

00:41:33 24 job throughout all those positions, right?

00:41:35 25 MR. DeLANGE: Object to the form

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00:41:36 2 of the question.

00:41:38 3 A. It was certainly a similarity.

00:41:40 4 Q. Okay. And then once you arrived

00:41:44 5 at FSA in 2003, did that similarity in terms

00:41:49 6 of your overall job function kind of remain

00:41:52 7 the same from those prior experiences?

00:41:56 8 A. I ran the day-to-day asset

00:41:58 9 operations of the portfolio which was

00:42:01 10 consistent.

00:42:01 11 Q. Okay. Now, you described that in

00:42:14 12 2008 or so FSA was sold to Assured, correct?

00:42:25 13 A. Approximately that time period.

00:42:27 14 Q. Okay. But the asset management

00:42:30 15 part of FSA was retained by Dexia, correct?

00:42:37 16 A. Correct. FSA Management, LLC.

00:42:40 17 Q. Is that also something that you

00:42:41 18 commonly would call FSAM, F-S-A-M?

00:42:45 19 A. Correct.

00:42:47 20 Q. Other than essentially the

00:42:50 21 corporate reorganization that came about

00:42:53 22 because of the sale of part of FSA to

00:42:56 23 Assured, was there any change in terms of

00:43:01 24 your daily duties and responsibilities?

00:43:06 25 A. The objective of the portfolio

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00:43:08 2 changed.

00:43:09 3 Q. Okay. But broadly speaking, from

00:43:13 4 2003 through the -- through the changes in

00:43:19 5 2008, you were responsible for overseeing the

00:43:23 6 day-to-day management of FSAM's investments

00:43:30 7 in mortgage backed securities, correct?

00:43:32 8 A. Correct.

00:43:32 9 Q. Okay. And do those

00:43:34 10 responsibilities continue to this day?

00:43:37 11 A. They do with a different

00:43:38 12 objective, correct.

00:43:39 13 Q. How has the objective changed?

00:43:41 14 A. It is considered a non-core

00:43:43 15 business.

00:43:45 16 Q. Why is that?

00:43:47 17 MR. DeLANGE: Object to the

00:43:47 18 form. Beyond the scope.

00:43:50 19 You can answer.

00:43:53 20 Q. You can answer.

00:43:59 21 A. It is not -- Dexia is not

00:44:01 22 committed to our portfolio. So we are in the

00:44:03 23 process of deleveraging it.

00:44:06 24 Q. Okay. What's your understanding

00:44:08 25 of why Dexia is not committed to your

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00:44:10 2 portfolio?

00:44:11 3 MR. DeLANGE: Object to the

00:44:12 4 form. Beyond the scope.

00:44:13 5 You can answer.

00:44:18 6 A. It is not considered a core

00:44:20 7 product.

00:44:21 8 Q. What does that mean?

00:44:23 9 MR. DeLANGE: Same objections.

00:44:26 10 A. Core product as defined by

00:44:29 11 European Bank is something that, in general,

00:44:37 12 they need to be in. The business line they

00:44:40 13 need to be involved in, and they don't need

00:44:44 14 to be in this business line which, in

00:44:48 15 essence, entails issuing Guaranteed

00:44:52 16 Investment Contracts in general -- generally

00:44:56 17 to municipalities and other type entities.

00:45:02 18 Q. Issuing Guaranteed Investment

00:45:04 19 Contracts is different from investing in

00:45:08 20 mortgage backed securities, correct?

00:45:10 21 A. That was the liability side that

00:45:13 22 provided the funding for my assets.

00:45:15 23 Q. Okay. Essentially, FSA was in

00:45:19 24 the business of issuing things called

00:45:22 25 Guaranteed Investment Contracts, right?

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00:45:24 2 A. Correct.

00:45:24 3 Q. And they would receive money from

00:45:26 4 investors for selling Guaranteed Investment

00:45:29 5 Contracts, right?

00:45:31 6 A. Correct. FSA would, right.

00:45:33 7 Q. And then FSAM would take the

00:45:34 8 money that was received from those investors

00:45:38 9 and invest it in its own portfolio of assets,

00:45:42 10 correct?

00:45:43 11 A. Correct.

00:45:44 12 Q. A large portion of that portfolio

00:45:46 13 of assets was mortgage backed securities,

00:45:48 14 right?

00:45:49 15 A. Correct.

00:45:52 16 Q. That's the \$17 billion or so at

00:45:55 17 its peak of mortgage backed securities that

00:45:57 18 you oversaw the investments of, right?

00:46:00 19 A. Correct.

00:46:01 20 Q. Okay. Is the reason why --

00:46:12 21 withdrawn.

00:46:13 22 Back to your prior answers about

00:46:18 23 what was no longer a core business for Dexia,

00:46:24 24 is it -- were you referring to the investment

00:46:29 25 mortgage backed securities as no longer a



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00:46:32 2 core business for Dexia?

00:46:33 3 MR. DeLANGE: Object to the

00:46:34 4 form. Beyond the scope.

00:46:35 5 You can answer.

00:46:36 6 A. No.

00:46:37 7 Q. Okay. You were referring to the

00:46:41 8 sale of Guaranteed Investment Contracts,

00:46:42 9 right?

00:46:43 10 MR. DeLANGE: Beyond the scope.

00:46:44 11 A. I was referring to our overall

00:46:46 12 business model.

00:46:47 13 Q. Okay.

00:46:48 14 A. And there is not a core need, I

00:46:51 15 don't believe, to have our portfolio in a

00:46:57 16 European bank.

00:46:59 17 Q. Okay.

00:47:00 18 A. That's traditional banking.

00:47:03 19 Q. There used to be a core need to

00:47:05 20 have your investment portfolio within FSA and

00:47:08 21 Dexia, though, right?

00:47:09 22 MR. DeLANGE: Object to the

00:47:10 23 form. Beyond the scope.

00:47:11 24 You can answer.

00:47:13 25 A. I would not say that was ever

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00:47:15 2 considered a core business.

00:47:17 3 Q. Okay. Well, you said that there

00:47:20 4 was a change and that the business was no

00:47:24 5 longer considered core. Does that mean there

00:47:27 6 was a time when it was considered core?

00:47:30 7 A. No.

00:47:31 8 Q. Okay. So --

00:47:42 9 A. I don't believe so.

00:47:43 10 Q. Okay. So you don't believe that

00:47:48 11 the investment in mortgage backed securities

00:47:51 12 was a core business of FSA or Dexia in the

00:47:57 13 2006, 2007 timeframe; is that correct?

00:48:00 14 MR. DeLANGE: Object to the

00:48:00 15 form. Beyond the scope.

00:48:07 16 A. Every entity in many entities

00:48:12 17 have a core and non-core business lines.

00:48:16 18 Q. Okay.

00:48:17 19 A. Right. As they define it.

00:48:19 20 Q. Okay.

00:48:20 21 A. As the board, management,

00:48:22 22 whomever that maybe, right. I don't believe

00:48:25 23 that we were ever considered core during that

00:48:29 24 time period.

00:48:30 25 Q. And by "we," do you mean FSAM?

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00:48:32 2 A. FSAM and its complete business

00:48:35 3 model, its complete entity.

00:48:38 4 Q. The "complete entity," does that

00:48:40 5 include the sale of GIC investments?

00:48:43 6 A. Correct. The entire business

00:48:45 7 model.

00:48:45 8 Q. Okay. It was a pretty big

00:48:48 9 business, though, right?

00:48:50 10 MR. DeLANGE: Object to the

00:48:50 11 form.

00:48:51 12 A. It did become a sizable business,

00:48:55 13 I believe, for FSA.

00:49:07 14 Q. So in general, when FSA

00:49:14 15 invested -- withdrawn.

00:49:16 16 In general when FSA took the

00:49:19 17 money that it received from investors to whom

00:49:22 18 it had sold Guaranteed Investment Contracts,

00:49:26 19 why did it invest those funds significantly

00:49:34 20 in residential mortgage backed securities?

00:49:37 21 MR. DeLANGE: Object to the

00:49:38 22 form.

00:49:43 23 A. One, we believe we knew the

00:49:47 24 market.

00:49:49 25 Q. Why is that?

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00:49:53 2 A. FSA was involved in the market on

00:49:55 3 the surety side.

00:49:57 4 Q. Meaning it insured mortgage

00:49:59 5 securities, correct?

00:50:00 6 A. Correct.

00:50:00 7 Q. Okay.

00:50:01 8 A. And they believed they had a

00:50:03 9 competency.

00:50:06 10 Q. Based on the experience of people

00:50:07 11 like yourself, right?

00:50:11 12 A. Yes. But more specifically,

00:50:13 13 Glenn Tso.

00:50:14 14 Q. Okay.

00:50:16 15 A. And he had a management role on

00:50:24 16 the surety side and was asked to come over

00:50:26 17 and head our business. In addition, the

00:50:33 18 volume within the mortgage market was

00:50:39 19 significant to the point that it allowed us

00:50:41 20 to buy assets that would meet the yield

00:50:45 21 returns against our liabilities.

00:50:49 22 Q. What do you mean "meet the yield

00:50:51 23 returns"?

00:50:53 24 A. We were paying out a liability.

00:50:55 25 Q. Right.

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00:50:57 2 A. And we invest those funds so that  
00:51:04 3 we earn a return that is greater than what we  
00:51:07 4 are paying out. Otherwise we lose money.  
00:51:09 5 Q. Okay. And in investing those  
00:51:12 6 funds largely in residential mortgage backed  
00:51:15 7 securities, you and FSA were trying to  
00:51:19 8 maximize the spread between what you had to  
00:51:23 9 payout to the GIC investors and what you were  
00:51:27 10 recovering on the assets that you were  
00:51:30 11 investing; is that fair?

00:51:32 12 MR. DeLANGE: Object to the form  
00:51:32 13 of the question.

00:51:33 14 A. No.

00:51:36 15 Q. How was it not correct?

00:51:39 16 A. It was not a maximization  
00:51:41 17 concept.

00:51:42 18 Q. Okay.

00:51:43 19 A. Of certain spread.

00:51:47 20 Q. Did you have certain targets of  
00:51:51 21 what sort of spread you needed to earn as  
00:51:56 22 part of your business strategy?

00:51:59 23 MR. DeLANGE: Object to the  
00:51:59 24 form.

00:52:04 25 A. It would vary from year to year.

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00:52:06 2 Q. Okay. I mean FSA could have  
00:52:11 3 taken these billions of dollars and invested  
00:52:13 4 them in, you know, U.S. treasury securities,  
00:52:15 5 correct?

00:52:16 6 MR. DeLANGE: Object to the form  
00:52:17 7 of the question.

00:52:18 8 A. They could have.

00:52:19 9 Q. Do you have an understanding as  
00:52:20 10 to why they didn't do that?

00:52:23 11 MR. DeLANGE: Object to the  
00:52:24 12 form.

00:52:26 13 A. It would have provided most  
00:52:27 14 likely a negative return.

00:52:29 15 Q. Okay.

00:52:29 16 A. Cash flow return.

00:52:30 17 Q. So the objective was to invest in  
00:52:33 18 something that gives a greater return,  
00:52:36 19 correct?

00:52:37 20 A. In what we were paying out on my  
00:52:40 21 liabilities?

00:52:41 22 Q. Yes.

00:52:42 23 A. That was a fundamental core  
00:52:46 24 concept, yes.

00:52:48 25 Q. And in order to obtain a greater

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00:52:53 2 return than you were paying out on the

00:52:55 3 liabilities, that involved taking on certain

00:52:59 4 risk; is that fair?

00:53:00 5 MR. DeLANGE: Object to the form

00:53:01 6 of the question.

00:53:12 7 A. In the sense that any investment

00:53:13 8 is a risk, yes.

00:53:16 9 Q. Okay. But investments also fall

00:53:18 10 across a sort of a spectrum of risk, right?

00:53:21 11 A. Correct. That's why we remained

00:53:23 12 at the AAA level for the vast majority of our

00:53:25 13 investments.

00:53:26 14 Q. Okay. U.S. treasuries are also

00:53:31 15 AAA securities, right?

00:53:33 16 A. Correct.

00:53:34 17 Q. But they paid a significantly

00:53:37 18 lesser return than you got on the AAA RMBSs

00:53:42 19 that you invested in, right?

00:53:43 20 MR. DeLANGE: Object to the form

00:53:44 21 of the question.

00:53:54 22 A. In general, U.S. treasuries would

00:53:56 23 not be an option.

00:53:58 24 Q. They paid a lesser return than

00:54:00 25 AAA RMBSs, correct?

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00:54:02 2 MR. DeLANGE: Object to the form

00:54:03 3 of the question.

00:54:07 4 A. On the asset side?

00:54:09 5 Q. Yes.

00:54:09 6 A. We primarily were a floating rate

00:54:11 7 account.

00:54:12 8 Q. Okay.

00:54:13 9 A. So there is not a true U.S.

00:54:16 10 treasury floating rate security that in

00:54:19 11 general we could have purchased.

00:54:31 12 Q. You could have purchased agency

00:54:34 13 backed RMBSs, right?

00:54:37 14 A. We could have.

00:54:38 15 Q. Okay.

00:54:39 16 A. And we did at some point.

00:54:42 17 Q. In general, is it fair to say

00:54:44 18 that agency backed RMBSs pay lower returns

00:54:52 19 than private label RMBSs?

00:54:54 20 MR. DeLANGE: Object to the form

00:54:55 21 of the question.

00:54:56 22 A. No.

00:54:57 23 Q. No? Why not?

00:55:01 24 A. They can but there are certainly

00:55:03 25 many opportunity -- instances where that is



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00:55:05 2 not the case.

00:55:13 3 Q. Now, to what degree were you

00:55:33 4 investing in agency RMBSs?

00:55:38 5 MR. DeLANGE: Object to the

00:55:39 6 form.

00:55:40 7 A. I don't recall.

00:55:44 8 Q. Relative to the investments in

00:55:47 9 private label RMBSs, was it more, was it

00:55:50 10 less?

00:55:53 11 A. It was less, probably.

00:55:55 12 Q. You think it was a lot less?

00:56:06 13 A. A lot is defined as --

00:56:08 14 Q. Well, you had a \$17 billion

00:56:10 15 portfolio at one point of RMBS, right?

00:56:16 16 A. (No answer.)

00:56:17 17 Q. Was that all private label?

00:56:19 18 A. No.

00:56:21 19 Q. Can you apportion, you know,

00:56:24 20 roughly what amount of it was private label

00:56:28 21 versus agency backed?

00:56:33 22 A. I don't recall.

00:56:54 23 Q. Now -- withdrawn.

00:57:04 24 So focusing on the time that you

00:57:06 25 spent at FSA and Dexia, you have mentioned

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00:57:16 2 Mr. Tso already. In addition to Mr. Tso,  
00:57:20 3 what other people, individuals, did you work  
00:57:24 4 with in the evaluation and purchase of  
00:57:29 5 mortgage backed securities?

00:57:31 6 A. Glenn Tso ran the group and he  
00:57:33 7 was my direct report.

00:57:34 8 Q. Okay.

00:57:37 9 A. And during that time I would have  
00:57:39 10 anywhere from two to maybe five analyst-type  
00:57:43 11 individuals of various levels.

00:57:46 12 Q. Okay. Who were the -- what are  
00:57:49 13 the specific names of analysts that worked  
00:57:52 14 for you who spent, you know, a meaningful  
00:57:56 15 amount of time on RMBS investments?

00:58:00 16 MR. DeLANGE: Wait, do you want  
00:58:00 17 the entire time he was there or --

00:58:03 18 MR. PASKIN: That's fair.

00:58:04 19 Q. Let's focus on the 2006, 2007  
00:58:06 20 time period.

00:58:13 21 A. I don't recall exactly who was  
00:58:15 22 there. I could provide names of individuals  
00:58:19 23 that worked for me on the asset side.

00:58:22 24 Q. Okay. Great.

00:58:25 25 A. Craig Reckin.

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00:58:27 2 Q. How do you spell that?

00:58:29 3 A. R-E-C-K-I-N; Frank Albus,

00:58:38 4 Doyle Flaherty, Jeremy Garfield.

00:58:59 5 Q. Anyone else?

00:59:02 6 A. Not that I can recall. There

00:59:04 7 were probably others.

00:59:05 8 Q. Okay. Are those the people who

00:59:07 9 were principally working for you over time

00:59:10 10 with respect to the management of RMBS

00:59:14 11 investments?

00:59:21 12 A. They were certainly some of the

00:59:23 13 key individuals. But people left the desk.

00:59:27 14 Q. I understand. As you sit here

00:59:29 15 today, during the 2006, 2007 time period,

00:59:33 16 apart from the people on this list, were

00:59:35 17 there any other key individuals who worked

00:59:37 18 for you in connection with RMBS investments?

00:59:40 19 A. Not that I recall.

00:59:42 20 Q. Okay. Now, Mr. Garfield didn't

00:59:44 21 start working at FSA until 2008, correct?

00:59:47 22 MR. DeLANGE: Object to the

00:59:48 23 form.

00:59:49 24 A. I am not sure.

00:59:50 25 Q. Okay. I want to go through each

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00:59:55 2 of these guys and just kind of, if you could

00:59:59 3 sort of give me a little bit more detail

01:00:01 4 about what their specific function was in

01:00:04 5 connection with RMBS investments.

01:00:06 6 Why don't we start with

01:00:07 7 Mr. Reckin?

01:00:12 8 A. He would take a look at a

01:00:16 9 particular deal. He would talk to the Street

01:00:22 10 to the degree a new issue came about. He

01:00:28 11 would printout the term sheet, potentially

01:00:31 12 run numbers with the CDI file and prepare

01:00:35 13 some analysis.

01:00:47 14 Q. Now, with respect to Mr. Albus,

01:00:50 15 Mr. Flaherty and Mr. Garfield, would your

01:00:54 16 description of their basic functions in

01:00:57 17 connection with RMBS investments be the same

01:00:59 18 as you said for Mr. Reckin?

01:01:02 19 A. In general, yes. I would say

01:01:06 20 Frank Albus was probably more senior than

01:01:10 21 some of the others. I don't know if it is

01:01:12 22 defined as in title.

01:01:15 23 Q. Okay. You relied on him a little

01:01:17 24 bit more; is that fair?

01:01:20 25 A. In general, yes.

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01:01:21 2 Q. Okay. Other than his relative  
01:01:24 3 seniority to some of these other folks, did  
01:01:29 4 he perform a sort of tasks of a different  
01:01:32 5 nature in evaluating RMBS investments than  
01:01:35 6 you described for Mr. Reckin?

01:01:39 7 A. No.

01:01:40 8 Q. Okay. He would similarly, as you  
01:01:43 9 said, look at the deal, right? What does  
01:01:47 10 looking at the deal entail?

01:01:48 11 A. Review the term sheet and any of  
01:01:50 12 the supporting documents.

01:01:52 13 Q. Okay. What sort of supporting  
01:01:54 14 documents would they look at?

01:01:58 15 A. For a new issue deal?

01:01:59 16 Q. Yeah.

01:02:01 17 A. Primarily the deal sheet.

01:02:03 18 Q. Okay. And for a secondary deal,  
01:02:08 19 what additional things would they look at as  
01:02:11 20 part of looking at the deal?

01:02:14 21 A. We would, in general, probably go  
01:02:18 22 to Intex and/or Bloomberg.

01:02:23 23 Q. Okay. Run various analyses about  
01:02:27 24 the deal that those services could provide,  
01:02:32 25 right?

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01:02:32 2 A. Correct.

01:02:40 3 Q. You also said Mr. Reckin would

01:02:42 4 talk to the Street about RMBS investments.

01:02:49 5 What did that entail?

01:02:53 6 A. We have coverage from, in

01:02:55 7 general, the majority of the investment banks

01:02:58 8 out there, and they would call in to find

01:03:04 9 out, you know, if we were looking to buy

01:03:06 10 anything and if so, what. And then to

01:03:10 11 provide feedback in terms of what they were

01:03:12 12 bringing, what was in the pipeline in terms

01:03:18 13 of new deals from their side.

01:03:20 14 Q. Okay. You also said they would

01:03:24 15 run the CDI file and that's what you

01:03:26 16 testified about a little bit earlier this

01:03:28 17 morning, right?

01:03:29 18 A. In general they would do that,

01:03:30 19 correct.

01:03:31 20 Q. Okay. And you also said that

01:03:35 21 Mr. Reckin and these other guys would prepare

01:03:37 22 an analysis of the deal. What sort of

01:03:39 23 analysis would they prepare?

01:03:42 24 A. They would break out the various

01:03:45 25 collateral components. And we would compare

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01:03:49 2 it against previous purchases that we had.

01:03:52 3 Q. Okay.

01:03:54 4 A. They would look at the available  
01:03:55 5 funds cap.

01:03:59 6 Q. Anything else?

01:04:00 7 A. Potentially yield tables.

01:04:02 8 Q. Okay.

01:04:04 9 A. There were average life profiles.

01:04:07 10 Q. Okay. Now, I know we have been  
01:04:32 11 talking generally with respect to the process  
01:04:40 12 for making investments at FSA and Dexia in  
01:04:42 13 the 2006, 2007 time period, would the process  
01:04:49 14 that you just described be the same used for  
01:04:55 15 the specific investments at issue in this  
01:04:58 16 case?

01:05:03 17 A. Yes.

01:05:04 18 Q. Okay. Are there any differences  
01:05:07 19 that you know of between the general process  
01:05:09 20 that you have described and the process that  
01:05:12 21 was employed to make the RMBS investments at  
01:05:16 22 issue in this case?

01:05:19 23 A. Not that I can recall.

01:05:20 24 Q. Okay. Same sorts of analyses  
01:05:23 25 would be done, right?

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01:05:27 2 A. Correct.

01:05:27 3 Q. Same sorts of information would

01:05:29 4 be looked at, correct?

01:05:30 5 A. Correct.

01:05:31 6 Q. Same sorts of conversations with

01:05:33 7 the Street, if there were any, would be had,

01:05:34 8 right?

01:05:36 9 A. Correct.

01:05:45 10 Q. What was the, and you can

01:05:47 11 answer -- well, let me break it down.

01:05:50 12 What was Mr. Reckin's general

01:05:54 13 background and experience in RMBS investing?

01:06:00 14 A. I don't recall. I believe he was

01:06:03 15 in the CDO group before he came over.

01:06:06 16 Q. At FSA or somewhere else?

01:06:08 17 A. At FSA.

01:06:09 18 Q. Okay.

01:06:09 19 A. But I am not positive.

01:06:10 20 Q. What are CDOs?

01:06:13 21 A. Collateralized debt obligations.

01:06:16 22 Q. Can you describe how his being in

01:06:19 23 the CDO group would be sort of relevant to

01:06:22 24 his ability to evaluate RMBS investments?

01:06:25 25 MR. DeLANGE: Object to the form



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01:06:26 2 of the question.

01:06:28 3 A. No, I wasn't part of -- he was

01:06:30 4 there prior to my arrival. So I am not sure

01:06:34 5 the purpose for his hiring.

01:06:36 6 Q. Okay. In general, how would

01:06:43 7 experience in CDOs help somebody evaluate

01:06:51 8 RMBS investments?

01:06:56 9 A. They would feel, in general, one

01:06:59 10 would feel comfortable with structure.

01:07:07 11 Q. Because he would just understand

01:07:08 12 the way that these sorts of bonds are

01:07:12 13 structurally put together, correct?

01:07:15 14 A. Correct. Correct.

01:07:16 15 Q. What about in terms of the

01:07:20 16 collateral, would CDO experience be

01:07:23 17 applicable to investments in RMBS?

01:07:31 18 A. I believe in general they would

01:07:32 19 have different collateral.

01:07:35 20 Q. What kind of collateral,

01:07:37 21 typically, backs CDOs?

01:07:40 22 A. Debt.

01:07:44 23 Q. Sometimes the debt that backs the

01:07:46 24 CDOs would be residential mortgage backed

01:07:49 25 securities themselves, right?

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01:07:55 2 A. Could be. In general it is not  
01:07:56 3 considered debt.

01:07:59 4 Q. Okay. What kind of experience  
01:08:03 5 and skill set did Mr. Albus have that allowed  
01:08:06 6 him to assist you in connection with  
01:08:09 7 evaluating RMBS investments?

01:08:13 8 A. I believe -- FSA I believe had a  
01:08:16 9 training program and I believe Frank Albus  
01:08:19 10 went through it.

01:08:24 11 Q. In general what was the training  
01:08:26 12 program for?

01:08:30 13 A. Every year, they would bring in a  
01:08:33 14 group of undergrads that would get accepted  
01:08:42 15 into the program and the program would have  
01:08:46 16 evolved over the years. In essence, they  
01:08:49 17 would go to the major groups within the firm  
01:08:52 18 and get experience exposure to each of those  
01:08:54 19 individual groups and then they would be  
01:08:57 20 assigned or put on a particular group or  
01:09:02 21 desk.

01:09:03 22 Q. Okay. And so Mr. Albus went  
01:09:08 23 through the training program and then was  
01:09:09 24 assigned to work for you; is that fair?

01:09:12 25 A. I believe that's the case.

1 J. HENDRICKSON

01:09:13 2 Q. Okay. And did you consider him

01:09:17 3 to be a capable analyst in, you know,

01:09:20 4 evaluating RMBS investments?

01:09:24 5 A. He was a quality individual.

01:09:28 6 Q. Okay.

01:09:28 7 A. Intelligent but he was still

01:09:29 8 young.

01:09:34 9 Q. I am not suggesting that he would

01:09:36 10 have been capable of doing your job, for

01:09:38 11 example, but in supporting you in doing your

01:09:40 12 job, did you think he did a capable job?

01:09:43 13 A. Yes.

01:09:44 14 Q. Okay. Same for Mr. Reckin?

01:09:47 15 A. Yes.

01:09:48 16 Q. Same for Mr. Flaherty?

01:09:51 17 A. Yes.

01:09:53 18 Q. Same for Mr. Garfield?

01:09:54 19 A. Yes.

01:09:56 20 Q. What was Mr. Flaherty's general

01:09:57 21 background and experience in RMBS?

01:10:02 22 A. I believe he went through the

01:10:03 23 similar training program.

01:10:07 24 Q. What about Mr. Garfield?

01:10:11 25 A. He came in, I believe, from a

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01:10:15 2 Merrill Lynch entity.

01:10:16 3 Q. Okay. So he was a lateral hire?

01:10:21 4 A. Correct.

01:10:34 5 Q. So over the course of 2006 and

01:10:41 6 2007, you supported by your team of analysts

01:10:50 7 evaluated hundreds of different RMBS

01:10:54 8 investment opportunities; is that fair?

01:11:06 9 A. It was a significant number.

01:11:08 10 Q. Okay. Do you have any reason to

01:11:10 11 doubt that it was in the hundreds?

01:11:16 12 A. Over 100 now.

01:11:18 13 Q. Okay. And that, in fact, you

01:11:22 14 don't have any reason to doubt that during

01:11:25 15 2006 and 2007, notwithstanding how many

01:11:30 16 investments you may have analyzed, you, in

01:11:32 17 fact, invested in over 100 different RMBS; is

01:11:36 18 that correct?

01:11:40 19 A. Yes. I believe we had more than

01:11:42 20 100 RMBS purchases.

01:11:44 21 Q. Okay. Do you have any

01:11:45 22 recollection about sort of how much more than

01:11:48 23 100 you had?

01:11:52 24 A. I don't recall.

01:11:54 25 Q. Do you remember if you had more

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01:11:55 2 than 200?

01:12:01 3 A. I believe so.

01:12:02 4 Q. More than 300?

01:12:06 5 A. I believe so.

01:12:07 6 Q. More than 400?

01:12:09 7 A. At any one time or through the

01:12:12 8 entire time period?

01:12:13 9 Q. Over the time period, investments

01:12:14 10 that you made in RMBS.

01:12:21 11 A. Because part of the issue is

01:12:23 12 certain deals mature.

01:12:24 13 Q. Okay.

01:12:25 14 A. Right. So some of them are very

01:12:26 15 short dated and had short average lives and

01:12:31 16 so it would mature early. So it is harder to

01:12:42 17 define. But we did have a significant number

01:12:44 18 of positions defined by 300 plus.

01:12:48 19 Q. Okay. Was there sort of, with

01:12:56 20 respect to a given RMBS investment

01:13:00 21 opportunity, was there a typical, you know,

01:13:04 22 sort of timetable during which that just sort

01:13:09 23 of followed the life of an individual new

01:13:11 24 issue deal?

01:13:13 25 Do you understand what I am

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J. HENDRICKSON

01:13:14 2 asking?

01:13:15 3 MR. DeLANGE: Object to the

01:13:15 4 form.

01:13:17 5 Q. It was a pretty bad question.

01:13:22 6 You understand that for large players in the

01:13:26 7 RMBS market, such as JP Morgan, Bear Stearns

01:13:31 8 and Washington Mutual, they would come to

01:13:35 9 market on a monthly basis with a batch of new

01:13:39 10 RMBS securities, correct?

01:13:42 11 A. Correct.

01:13:43 12 Q. Okay. Was there typically sort

01:13:46 13 of like a monthly schedule during which that

01:13:49 14 would happen?

01:13:51 15 MR. DeLANGE: Object to the

01:13:51 16 form.

01:13:54 17 A. It wasn't a predefined monthly

01:13:57 18 schedule.

01:13:57 19 Q. Okay. Was there sort of a

01:14:00 20 chronology of the amount of time that it

01:14:06 21 would typically be from when you first would

01:14:09 22 learn of an RMBS that was coming to market, a

01:14:12 23 new issue and the time when it would actually

01:14:17 24 issue and settle?

01:14:25 25 A. Yes. Settlement is -- bonds may

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01:14:30 2 settle in a couple of weeks or a couple of

01:14:33 3 months.

01:14:34 4 Q. Okay.

01:14:34 5 A. Right. But the shorter time

01:14:40 6 period is when it comes to market, when the

01:14:43 7 deal is priced, and when the bonds are

01:14:46 8 allocated. At that point, whether everyone

01:14:49 9 knows when settlement is, but whenever

01:14:51 10 settlement is, there is not a lot of activity

01:14:53 11 between the allocation and pricing of the

01:14:56 12 bonds and settlement.

01:14:58 13 Q. Okay. Fair enough. So if we

01:15:00 14 leave settlement out of it, from the time

01:15:04 15 when you and your team would first learn of

01:15:06 16 an RMBS investment opportunity until the time

01:15:10 17 when the deal would be finalized and you

01:15:15 18 would receive your allocation of it, what

01:15:18 19 kind of timeframe are we talking about, days,

01:15:20 20 weeks, months?

01:15:21 21 A. Days, usually. Could be weeks

01:15:24 22 but in general it was days.

01:15:27 23 Q. Okay. And the allocation point

01:15:38 24 where you received your allocation, is that

01:15:40 25 also the time when the deal gets filed with

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01:15:44 2 the SEC?

01:15:45 3 MR. DeLANGE: Object to the

01:15:46 4 form. Beyond the scope.

01:15:46 5 A. I don't recall.

01:15:51 6 Q. Is that the time when, to your

01:15:53 7 understanding, essentially, the deal

01:15:55 8 documents are finalized?

01:15:57 9 MR. DeLANGE: Object to the

01:15:57 10 form. Beyond the scope.

01:15:58 11 You can answer.

01:16:00 12 A. I don't recall.

01:16:09 13 Q. When during the typical kind of

01:16:14 14 life of a new issue deal would you, on behalf

01:16:24 15 of FSA and Dexia, make the decision to invest

01:16:30 16 in a particular RMBS?

01:16:34 17 MR. DeLANGE: Object to the

01:16:34 18 form.

01:16:39 19 A. A lot of it was based upon the

01:16:42 20 deal themselves in terms of what their

01:16:44 21 schedule was.

01:16:50 22 Q. Was there any sort of, on the buy

01:16:53 23 side, which is where you were, was there any

01:16:56 24 sort of competition among buyers to get into

01:17:02 25 deals as early as possible?



1 J. HENDRICKSON

01:17:05 2 A. To get in early?

01:17:07 3 Q. Just to get in early in order to

01:17:10 4 receive an allocation period.

01:17:17 5 A. In general, if you were the last

01:17:20 6 one to put in an order, and you were

01:17:24 7 consistently doing that, it would probably

01:17:28 8 not be advantageous in terms of your

01:17:30 9 allocation process.

01:17:32 10 Q. Okay. So in practice, at FSA and

01:17:37 11 Dexia, did you try to make your decision

01:17:43 12 whether to invest sort of relatively early in

01:17:47 13 the process and request your allocation?

01:17:51 14 MR. DeLANGE: Object to the

01:17:52 15 form.

01:17:53 16 A. We can not get our allocation.

01:17:56 17 That was a separate process that was

01:17:59 18 determined by the dealer.

01:18:00 19 Q. Okay. But you would place an

01:18:04 20 order, right?

01:18:06 21 A. In various forms, correct.

01:18:08 22 Q. I am trying to understand a

01:18:10 23 little bit of sort of the timing and

01:18:11 24 mechanics of when along this sort of

01:18:17 25 chronology for a new issue deal you would go

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J. HENDRICKSON

01:18:21 2 in and place your order with the dealer?

01:18:28 3 A. It would usually be within days,

01:18:30 4 if not hours, and that was primarily driven

01:18:33 5 by the timetable of the dealer.

01:18:36 6 Q. Okay.

01:18:36 7 A. If we don't have our order and we

01:18:38 8 have interest in a particular deal and we

01:18:39 9 don't have our order in and we do have

01:18:41 10 interest in that deal, we won't be able to

01:18:44 11 participate.

01:18:45 12 Q. Okay. So, generally speaking,

01:18:50 13 within days and sometimes even hours of

01:18:56 14 learning of the existence of a deal and

01:19:00 15 receiving the term sheet from a dealer, would

01:19:03 16 you make your decision whether or not you

01:19:05 17 wanted to buy into it, right?

01:19:07 18 A. I did not have authorization to

01:19:10 19 commit any capital on behalf of the firm.

01:19:15 20 Q. Fair enough. And we will get to

01:19:16 21 the authorization process in a minute. But

01:19:20 22 within days and sometimes within hours of

01:19:24 23 receiving the term sheet from the dealer and

01:19:27 24 learning that there was a new issue deal, FSA

01:19:33 25 and Dexia would commit to purchase in it,

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01:19:37 2 right?

01:19:38 3 MR. DeLANGE: Object to the

01:19:38 4 form.

01:19:40 5 A. Correct.

01:19:41 6 Q. Go ahead.

01:19:42 7 A. This was -- FSA asset management

01:19:45 8 that was going into the books.

01:19:47 9 Q. Okay.

01:19:49 10 A. We were owned by Dexia, which is

01:19:51 11 true but to just clarify, Dexia, the bank was

01:19:55 12 considered a separate account.

01:19:56 13 Q. Okay. I understand. So leaving

01:19:59 14 aside the sort of the corporate formalities,

01:20:01 15 and I appreciate the significance of them,

01:20:04 16 the decision to make the investment for

01:20:07 17 FSAM's portfolio would be made within days

01:20:12 18 and sometimes even within hours of receiving

01:20:16 19 the term sheet and first learning about a

01:20:17 20 deal from the dealer, correct?

01:20:19 21 A. Correct.

01:20:21 22 MR. DeLANGE: Actually, let him

01:20:22 23 finish the question.

01:20:31 24 MR. PASKIN: Let's take a short

01:20:31 25 break.

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01:20:35 2 THE VIDEOGRAPHER: The time is

01:20:35 3 11:01 a.m., and this completes Tape 1

01:20:38 4 of the videotaped deposition of

01:20:39 5 Mr. Jake Hendrickson.

01:20:41 6 (Break taken.)

01:20:43 7 THE VIDEOGRAPHER: The time is

01:20:43 8 11:21 a.m. and this begins Tape No. 2

01:20:46 9 of the videotaped deposition of

01:20:48 10 Mr. Jake Hendrickson.

11 BY MR. PASKIN:

01:20:50 12 Q. Mr. Hendrickson, before the

01:20:52 13 break, you answered a few questions about

01:20:56 14 sort of the timing of when FSAM would make

01:21:00 15 its investment decisions for new issued

01:21:03 16 deals. Would the general timing that you

01:21:09 17 described also apply specifically for the

01:21:14 18 deals at issue in this case?

01:21:17 19 A. In general, yes.

01:21:18 20 Q. Okay. Can you think of any

01:21:20 21 specific example of a deal in this case where

01:21:22 22 that general timing did not apply?

01:21:25 23 A. Can't recall.

01:21:26 24 Q. Okay. In the process of

01:21:31 25 reviewing a new issue deal, what, if any,

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01:21:41 2 role would reviewing the prospectus

01:21:48 3 supplement or other offering documents play,

01:21:51 4 if any, in your investment decision?

01:21:56 5 A. It would -- they were not

01:21:57 6 available.

01:21:58 7 Q. Okay. You were making your

01:22:00 8 investment decisions before the pro supps

01:22:04 9 were available, correct?

01:22:05 10 A. Correct.

01:22:06 11 Q. And that's the case in general

01:22:08 12 and also with respect to the deals at issue

01:22:10 13 in this case, right?

01:22:11 14 A. Correct.

01:22:12 15 Q. So you didn't read or review the

01:22:15 16 prospectus supplements, right?

01:22:17 17 MR. DeLANGE: Object to the

01:22:17 18 form.

01:22:19 19 A. Not prior to purchase.

01:22:22 20 Q. Okay. And the analysts who

01:22:25 21 worked for you, Mr. Albus and the others,

01:22:26 22 they didn't do it either prior to purchase,

01:22:29 23 right?

01:22:30 24 A. Correct.

01:22:34 25 Q. How did the timing work when FSAM

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J. HENDRICKSON

01:22:39 2 made secondary market purchases of RMBS?

01:22:50 3 A. We had a similar process, but the

01:22:56 4 vast majority of our purchases were new

01:22:59 5 issue.

01:22:59 6 Q. Okay. With respect to secondary

01:23:06 7 market deals, because they had already been

01:23:09 8 issued, I take it that the prospectus

01:23:12 9 supplements were already filed and public,

01:23:15 10 correct?

01:23:16 11 A. Correct.

01:23:17 12 Q. When you evaluated with FSAM --

01:23:22 13 withdrawn.

01:23:23 14 When FSAM evaluated secondary

01:23:26 15 market purchase opportunities of RMBS, did

01:23:30 16 you or anybody else review the prospectus

01:23:34 17 supplements or other offering documents?

01:23:39 18 A. With respect to?

01:23:42 19 Q. With respect to anything. Did

01:23:44 20 you read them?

01:23:51 21 A. In general, no. The collateral

01:23:54 22 that was in there at that time --

01:23:56 23 Q. Right.

01:23:56 24 A. Obviously that collateral has

01:23:58 25 changed over time.

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J. HENDRICKSON

01:24:01 2 Q. Right.

01:24:01 3 A. So we would go to Intex or

01:24:04 4 Bloomberg to get an updated performance.

01:24:08 5 Q. Okay. You would review the

01:24:09 6 specific data about the collateral and how it

01:24:12 7 has performed since issue, right?

01:24:14 8 A. Correct.

01:24:15 9 Q. But you wouldn't go back and read

01:24:17 10 the text of the prospectus supplements that

01:24:20 11 were filed when the deal was first issued,

01:24:22 12 correct?

01:24:23 13 A. In general, no.

01:24:25 14 Q. And in general, nobody at FSAM

01:24:27 15 would do that, right?

01:24:30 16 A. In general, no.

01:24:31 17 Q. Okay. And with respect to the

01:24:33 18 specific deals at issue in this case, you

01:24:37 19 don't recall anything different, in general,

01:24:39 20 nobody would review the prospectus

01:24:41 21 supplements for secondary market purchases,

01:24:44 22 correct?

01:24:46 23 A. In general, no.

01:24:48 24 Q. Can you think of any deal at

01:24:49 25 issue in this case where somebody did read a

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01:24:53 2 prospectus supplement?

01:24:54 3 A. For the new issue?

01:24:55 4 Q. For any deal that -- involved in  
01:24:57 5 this case.

01:25:00 6 A. I believe most of what was in  
01:25:01 7 this case is new issue.

01:25:03 8 Q. Okay.

01:25:04 9 A. And the prospectus was not  
01:25:06 10 available to us.

01:25:07 11 Q. Okay. To the extent there are  
01:25:10 12 any secondary market purchases at issue in  
01:25:12 13 this case, do you have any recollection of  
01:25:16 14 anybody at FSAM reviewing a prospectus  
01:25:18 15 supplement prior to making the decision to  
01:25:21 16 purchase?

01:25:22 17 A. I don't recall.

01:26:10 18 MR. PASKIN: I would like to  
01:26:10 19 mark as Exhibit 184, a document  
01:26:21 20 bearing Bates numbers DEX\_JPM\_0012092  
01:26:29 21 through '12099.

22 (Whereupon, Exhibit 184,

23 Document Bearing Bates Numbers

24 DEX\_JPM\_0012092 Through '12099 was

25 marked as for identification as of



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2 this date by the Reporter.)

01:26:59 3 Q. Take your time to review

01:27:00 4 Exhibit 184. My first question is whether

01:27:05 5 you recognize the document?

01:27:08 6 A. I don't recall.

01:27:10 7 Q. I take it you don't recall the

01:27:12 8 specific document here, but do you recognize

01:27:15 9 sort of the format and content of this

01:27:17 10 document as something that you would see in

01:27:20 11 the ordinary course of your work at FSA?

01:27:22 12 A. Yes.

01:27:23 13 Q. So in general, can you tell me

01:27:25 14 what this document is?

01:27:30 15 A. It's a -- it appears to be the

01:27:33 16 break out of a new subprime issue of a

01:27:37 17 JP Morgan shelf and some general collateral

01:27:42 18 details.

01:27:47 19 Q. On August 18, 2006, Mr. Albus

01:27:51 20 sends Mr. Tso an E-mail on which he copies

01:27:56 21 you describing the details about the

01:28:00 22 collateral and the structure for this deal,

01:28:02 23 correct?

01:28:03 24 A. Correct.

01:28:05 25 Q. And he is seeking Mr. Tso's

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J. HENDRICKSON

01:28:08 2 approval to submit an order for the deal,

01:28:10 3 right?

01:28:12 4 A. Correct.

01:28:13 5 Q. Okay. And Mr. Albus seeks

01:28:16 6 approval at 11:04 a.m. on August 18th, right?

01:28:21 7 A. Correct.

01:28:22 8 Q. Mr. Tso provides his approval

01:28:25 9 12 minutes later at 11:16 a.m., correct?

01:28:36 10 A. Correct.

01:28:38 11 Q. Was that sort of the typical

01:28:40 12 process and timing for the purchases at issue

01:28:44 13 in this case?

01:28:45 14 MR. DeLANGE: Object to the form

01:28:46 15 of the question.

01:28:50 16 A. This probably would not be

01:28:52 17 considered typical.

01:28:53 18 Q. Okay. What would be considered

01:28:55 19 typical?

01:29:20 20 A. Sometimes there would be more

01:29:21 21 discussion around the deal.

01:29:23 22 Q. Okay. Such as what?

01:29:28 23 A. Just what was in here.

01:29:34 24 Q. So sometimes -- to just clarify,

01:29:36 25 sometimes you say there would be additional

1 J. HENDRICKSON

01:29:38 2 discussion just about the details that are  
01:29:41 3 provided in the E-mail?

01:29:44 4 A. Or any other questions that Glenn  
01:29:45 5 would have regarding the review, correct.

01:29:49 6 Q. Okay. What role did you play,  
01:29:53 7 typically, in putting together this sort of  
01:30:01 8 deal summary that Mr. Albus or one of the  
01:30:03 9 analysts would send to Mr. Tso seeking  
01:30:06 10 approval for an RMBS purchase?

01:30:09 11 A. In general it is the analyst that  
01:30:11 12 would put these together.

01:30:13 13 Q. Did you have any role in making  
01:30:14 14 the recommendation to Mr. Tso or did the  
01:30:18 15 analyst essentially work on his own?

01:30:23 16 A. No, the analyst did not work on  
01:30:24 17 his own.

01:30:25 18 Q. So the analyst would put together  
01:30:27 19 this summary, I am trying to get a sense of  
01:30:29 20 what kind of discussion or interaction the  
01:30:32 21 analyst would have with you before sending  
01:30:35 22 the sort of proposal to one of the officers?

01:30:41 23 A. In general, they would sit there  
01:30:43 24 and put together the necessary docs. I would  
01:30:45 25 have that conversation with Glenn directly.

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01:30:52 2 This could have been a time in which I was on  
01:30:54 3 vacation. So I was not available to have  
01:30:58 4 this conversation directly with Glenn so  
01:31:00 5 therefore, Frank would do it. But the vast  
01:31:04 6 majority of cases I believe they would  
01:31:07 7 prepare for me and I would have the  
01:31:08 8 conversation directly with Glenn.

01:31:11 9 Q. So in the vast majority of cases,  
01:31:13 10 is it fair to say that it wasn't just the  
01:31:18 11 analyst alone who was making the preliminary  
01:31:22 12 determination of what to invest in, you were  
01:31:26 13 involved in that process also before it would  
01:31:28 14 go to management?

01:31:29 15 A. Correct. It was -- the analyst  
01:31:32 16 didn't make any preliminary determination  
01:31:34 17 whether we should invest or not.

01:31:36 18 Q. It was really your determination  
01:31:38 19 subject to the approval of somebody who had  
01:31:42 20 the authority to approve the investment,  
01:31:44 21 right?

01:31:44 22 A. Correct.

01:32:01 23 Q. I am going to show you what has  
01:32:02 24 been marked as Exhibit 185. Which bears  
01:32:10 25 Bates number DEX\_JPM\_00728574 through '75.

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01:43:55 2 A. Correct.

01:43:56 3 Q. Part of it is also the expertise

01:43:57 4 that the insurance arm of FSA has, correct?

01:44:01 5 A. Correct.

01:44:05 6 Q. What kind of credit expertise did

01:44:12 7 FSA have that could be brought to bear in

01:44:15 8 evaluating these investments?

01:44:19 9 MR. DeLANGE: Object to the

01:44:19 10 form. Beyond the scope.

01:44:20 11 You can answer.

01:44:22 12 A. Specific to FSAM or to FSA

01:44:26 13 overall?

01:44:27 14 Q. Well, just going back to the

01:44:29 15 quote, it says "To leverage FSA structured

01:44:29 16 finance and credit expertise by focusing on

01:44:35 17 investments in high quality ABS and MBS."

01:44:41 18 Did FSAM leverage credit expertise in making

01:44:48 19 investment decisions in RMBS?

01:44:59 20 A. We did not consider credit to be

01:45:02 21 a huge component. As a matter of fact, it

01:45:05 22 was a very small component of our portfolio.

01:45:07 23 That's why we primarily focused on the AAA

01:45:11 24 ratings from primarily Moody's and S&P.

01:45:16 25 Q. Okay. But I take it from the

1 J. HENDRICKSON

01:45:18 2 statement here in the underwriting

01:45:19 3 guidelines, that FSA did in fact have credit

01:45:23 4 expertise, right?

01:45:24 5 MR. DeLANGE: Object to the form

01:45:25 6 of the question. Beyond the scope.

01:45:30 7 A. Yes, within the overall corporate

01:45:33 8 entity.

01:45:34 9 Q. And within the underwriting

01:45:36 10 guidelines, it says that FSA financial

01:45:39 11 products will leverage that credit expertise

01:45:43 12 in focusing on -- in focusing its MBS

01:45:46 13 investments, correct?

01:45:49 14 A. It does say that.

01:45:50 15 Q. Okay. And are you saying that

01:45:52 16 that didn't actually happen?

01:45:58 17 A. There was very -- by staying at

01:46:00 18 the AAA level, there was very little -- we

01:46:08 19 were leveraging our expertise within the

01:46:12 20 product. But within that, due to the

01:46:16 21 portfolio, due to the short turnaround time,

01:46:22 22 we wanted to stay with quality institutions

01:46:26 23 where we felt comfortable with the

01:46:27 24 underwriting process and we wanted to stay

01:46:30 25 extremely high in the capital structure and

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01:46:32 2 that's why we primarily concentrated on the

01:46:34 3 AAA bonds.

01:46:36 4 Q. Okay. So credit expertise, I

01:46:44 5 take it, is something that FSAM would have

01:46:49 6 been capable of bringing to bear in

01:46:53 7 connection with investments in MBS; is that

01:46:56 8 fair?

01:46:57 9 MR. DeLANGE: Object to the

01:46:58 10 form.

01:47:00 11 A. We believe we had a credit

01:47:02 12 expertise. That does not necessarily mean

01:47:05 13 that you need to go out and buy a credit

01:47:09 14 intensive product.

01:47:11 15 Q. Okay. I understand. So I am

01:47:13 16 trying to say that the reason why FSAM didn't

01:47:20 17 use a lot of credit expertise in evaluating

01:47:24 18 its MBS investments is because you didn't

01:47:28 19 believe that it was an important component of

01:47:32 20 evaluating those investments; is that fair?

01:47:34 21 MR. DeLANGE: Object to the form

01:47:34 22 of the question. Misstates his

01:47:35 23 testimony.

01:47:41 24 A. By us staying at the AAA level,

01:47:44 25 we did not believe that credit was a huge

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01:47:48 2 component of the trade. That there were  
01:47:49 3 other factors within that bond structure that  
01:47:53 4 we were managing that was above and beyond  
01:47:56 5 where credit fell.

01:47:57 6 Q. Okay. But notwithstanding that,  
01:48:00 7 to the extent you wanted to do more  
01:48:05 8 investigation and analysis into credit  
01:48:08 9 issues, it is something that FSA certainly  
01:48:11 10 had the capability of doing, right?

01:48:16 11 MR. DeLANGE: Object to the  
01:48:16 12 form.

01:48:26 13 A. We had the ability to assess  
01:48:29 14 credit.

01:48:30 15 Q. Okay. It is just that in  
01:48:32 16 connection with the majority of the RMBS  
01:48:35 17 investments that you were making in 2006 and  
01:48:39 18 2007, including the investments at issue in  
01:48:42 19 this case, FSAM didn't believe that it was an  
01:48:46 20 important component of the analysis; is that  
01:48:48 21 fair?

01:48:49 22 MR. DeLANGE: Object to the form  
01:48:49 23 of the question. Misstates his  
01:48:51 24 testimony.

01:48:53 25 A. We believed in what your client



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01:49:00 2 sent us in terms of the term sheet. We  
01:49:02 3 believed ultimately that it would be  
01:49:04 4 reflected accurately in the final black, and  
01:49:09 5 we believed that was accurately represented  
01:49:12 6 to the rating agencies and providing us with  
01:49:14 7 the AAA rating. Usually from Moody's and  
01:49:16 8 S&P.

01:49:18 9 Q. Okay. Move to strike that as  
01:49:19 10 non-responsive.

01:49:20 11 I want you to focus on what my  
01:49:22 12 question was. I am not asking you what you  
01:49:25 13 did believe and what you did look at. I am  
01:49:29 14 just asking if, sort of more asking about the  
01:49:33 15 negative here. And just to focus you, in  
01:49:38 16 evaluating the investments at issue in this  
01:49:40 17 case, is it true that you and FSAM did not  
01:49:49 18 believe that credit analysis was an important  
01:49:52 19 component of the decision process?

01:49:57 20 MR. DeLANGE: Object to the form  
01:49:58 21 of the question. Asked and answered.

01:50:07 22 A. It was not the first and foremost  
01:50:08 23 concern of ours when we invested in the  
01:50:11 24 securities.

01:50:12 25 Q. Did you consider it to be an

1 J. HENDRICKSON

02:22:38 2 Q. So you would make an order that  
02:22:39 3 says we want to invest in Tranche A provided  
02:22:45 4 that it is rated AAA, something like that?

02:22:49 5 A. Correct. If that rating changed  
02:22:51 6 for whatever reason, the order would not be  
02:22:53 7 good.

02:22:55 8 Q. Because you had testified earlier  
02:22:57 9 that, you know, even with respect to the  
02:22:58 10 collateral, the final loan tape wasn't  
02:23:03 11 necessarily set at the time that you made  
02:23:07 12 your investment decisions. So I take it the  
02:23:09 13 rating agencies would have additional data to  
02:23:12 14 consider after that fact, also, right?

02:23:14 15 MR. DeLANGE: Object to the form  
02:23:14 16 of the question. Misstates testimony.

02:23:21 17 A. It was usually stated that the  
02:23:25 18 additional collateral would be consistent  
02:23:28 19 with the term sheet that we were provided.  
02:23:30 20 That there would not be any material  
02:23:31 21 difference.

02:23:35 22 Q. Okay. Do you believe that the  
02:24:05 23 deals you invested in that are at issue in  
02:24:07 24 this case were rated incorrectly?

02:24:10 25 MR. DeLANGE: Object to the form

1 J. HENDRICKSON

02:24:11 2 of the question. Beyond the scope.

02:24:13 3 You can answer.

02:24:17 4 A. At the time we purchased, we

02:24:19 5 believed that they were AAA rated securities.

02:24:24 6 Q. I am saying at the time -- as you

02:24:26 7 are sitting here today, do you believe that

02:24:29 8 at the time of issuance the deals were rated

02:24:32 9 incorrectly?

02:24:33 10 MR. DeLANGE: Object to the form

02:24:34 11 of the question. Beyond the scope.

02:24:36 12 But you can answer.

02:24:39 13 A. I think there is certainly a

02:24:41 14 possibility that had everything been

02:24:44 15 disclosed with respect to the collateral and

02:24:47 16 the knowledge of the underwriter, if

02:24:54 17 everything had been disclosed to the rating

02:24:56 18 agencies, there is certainly a possibility

02:24:58 19 that they would not have achieved the ratings

02:25:02 20 that they did or the splits that they did.

02:25:15 21 Q. You don't know one way or the

02:25:16 22 other whether that was actually the case,

02:25:17 23 right?

02:25:18 24 MR. DeLANGE: Object to the form

02:25:19 25 of the question.

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02:26:25 2 of the question.

02:26:31 3 A. I guess we could have asked for

02:26:32 4 anything.

02:26:33 5 Q. In fact, when there were things

02:26:35 6 that you wanted to know about a particular

02:26:37 7 deal, you did in fact reach out to the

02:26:41 8 underwriters on that deal and asked them

02:26:42 9 questions, right?

02:26:44 10 MR. DeLANGE: Object to the form

02:26:44 11 of the question. Misstates his

02:26:45 12 testimony.

02:26:48 13 A. We can ask whatever we want. We

02:26:49 14 may not always get it.

02:26:51 15 Q. Well, but you could and did ask

02:26:54 16 underwriters questions when you had questions

02:26:56 17 about a particular deal, right?

02:26:57 18 A. Correct.

02:26:59 19 Q. And often, maybe not always, you

02:27:03 20 received answers to those questions, right?

02:27:05 21 A. We received the response, yes.

02:27:07 22 Q. Okay. Is there any reason why

02:27:09 23 you would have been prohibited from asking

02:27:11 24 underwriters questions about the due

02:27:13 25 diligence that they had performed?

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02:27:18 2 A. It was -- we did ask in general  
02:27:30 3 about the diligence process. As a matter of  
02:27:32 4 fact, it was the investment banks that put  
02:27:33 5 together the pitch books that brought them  
02:27:35 6 over to our office and set up meetings to go  
02:27:39 7 through the diligence process. So it was the  
02:27:42 8 investment banks that made an extremely  
02:27:46 9 strong effort to show how the diligence  
02:27:49 10 process provided comfort in their product.

02:27:52 11 Q. Okay. Can you point to any  
02:27:59 12 specific due diligence presentations that you  
02:28:05 13 were provided with related to the securities  
02:28:09 14 at issue in this case?

02:28:13 15 A. I -- no.

02:28:15 16 Q. Do you know whether or not FSAM  
02:28:18 17 relied on any such due diligence  
02:28:20 18 presentations in connection with its  
02:28:23 19 investments in this case?

02:28:26 20 A. We do not rely solely on it, but  
02:28:28 21 when a presentation was made about the  
02:28:30 22 process, origination process, the appraisal  
02:28:34 23 process, the documentation process, the  
02:28:39 24 verification of all that, when we were told  
02:28:42 25 that, we did rely on that.

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02:40:09 2 the title is about high grade ABS CDOs. It

02:40:14 3 says "A bottom up analysis."

02:40:17 4 A. Yes.

02:40:17 5 Q. And if you turn in a few pages to

02:40:21 6 page 6 ending in Bates number 346. You see

02:40:30 7 the heading at the top of the page says

02:40:32 8 Housing The Foundation of High HG CDOs, high

02:40:36 9 grade CDOs, correct?

02:40:38 10 A. Yes.

02:40:39 11 Q. Then it says "CDOs are a play on

02:40:44 12 the U.S. housing market" and below that,

02:40:48 13 "RMBSSs and CDOs of RMBSSs drive out other

02:40:53 14 collateral types." Do you agree that RMBSSs,

02:40:58 15 as early as the 2005 time period, were a play

02:41:02 16 on the U.S. housing market?

02:41:04 17 MR. DeLANGE: Object to the form

02:41:04 18 of the question.

02:41:21 19 A. It can be. But it may not. If

02:41:24 20 we are buying AAA rated securities, that's

02:41:27 21 not necessarily, in my view, a play on the

02:41:30 22 housing market.

02:41:31 23 Q. But in hindsight it was, right?

02:41:34 24 MR. DeLANGE: Object to the form

02:41:34 25 of the question.

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02:41:50 2 A. I don't necessarily agree with

02:41:51 3 that.

02:41:53 4 Q. Okay. It is a fact that housing

02:41:56 5 crashed in the United States, correct?

02:41:58 6 MR. DeLANGE: Object to the form

02:41:59 7 of the question.

02:42:01 8 A. Correct.

02:42:02 9 Q. Okay. Do you believe that that

02:42:04 10 had any role in the decline in value in your

02:42:07 11 RMBS investments?

02:42:09 12 MR. DeLANGE: Objection. Beyond

02:42:10 13 the scope.

02:42:11 14 You may answer.

02:42:12 15 A. I believe it is the other way

02:42:14 16 around.

02:42:17 17 Q. Explain that.

02:42:19 18 A. That it wasn't the down -- the

02:42:23 19 falling of the housing market that

02:42:26 20 deteriorated the creditworthiness of our

02:42:28 21 securities. It was the excess -- it was the

02:42:34 22 insidual demand by the investment banks to

02:42:41 23 get volume to sit there and make

02:42:44 24 inappropriate loans and apparently shortcuts

02:42:49 25 were made. They weren't told to the

1 J. HENDRICKSON

02:56:02 2 and 2007, when you were purchasing the RMBSs

02:56:05 3 at issue in this case, right?

02:56:08 4 A. Correct. The rating agencies,

02:56:19 5 everybody understood that and that's why the

02:56:21 6 subordination levels, deal structures were

02:56:23 7 changed to reflect those type of borrowers to

02:56:28 8 maintain a AAA or provide a AAA rating.

02:56:38 9 Q. I am going to give you what has

02:56:39 10 been marked as Exhibit 188. Bears Bates

02:56:49 11 number DEX\_JPM\_0451391 through '1423.

12 (Whereupon, Exhibit 188,

13 Document Bearing Bates Number

14 DEX\_JPM\_0451391 Through 1423 was

15 marked for identification as of this

16 date by the Reporter.)

02:57:21 17 Q. You see that Exhibit 188 consists

02:57:23 18 of a cover E-mail followed by a presentation,

02:57:28 19 correct?

02:57:29 20 A. Yes.

02:57:30 21 Q. Do you know what this

02:57:31 22 presentation is?

02:57:42 23 A. It looks like a subprime

02:57:44 24 presentation.

02:57:47 25 Q. Shows for a conference call on